

**FINANCIAL AUDITS OF THE  
STATE OF HAWAII  
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES  
STATE PARKING REVOLVING FUND**

**FOR THE YEARS ENDED JUNE 30, 2002 and 2001**

March 26, 2003

Comptroller  
State of Hawaii  
Department of Accounting and General Services  
1151 Punchbowl Street  
Honolulu, Hawaii 96813

Gentlemen:

Herein we submit our report on the financial statements of the State of Hawaii, Department of Accounting and General Services, State Parking Revolving Fund, as of and for the years ended June 30, 2002 and 2001. Our audits were performed in accordance with the terms of our contract with the State of Hawaii.

We would like to express our appreciation to the personnel of the State of Hawaii, Department of Accounting and General Services, State Parking Revolving Fund, and in particular to Mr. George Okano and Mr. Hugh Sonoda, for the assistance and cooperation we received during the course of our audits.

Yours truly,

ENDO & COMPANY

**STATE OF HAWAII  
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES  
STATE PARKING REVOLVING FUND**

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## **REPORT ON THE FINANCIAL STATEMENTS**

## INDEPENDENT AUDITOR'S REPORT

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Comptroller  
State of Hawaii  
Department of Accounting and General Services

We have audited the accompanying statements of net assets of the

### **STATE PARKING REVOLVING FUND (Fund),**

as of June 30, 2002 and 2001, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the management of the State of Hawaii, Department of Accounting and General Services. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The financial statements present only the accounts of the Fund and are not intended to present the financial position and results of operations of the State of Hawaii, or any other segment thereof, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of June 30, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note (1) to the financial statements, the Fund adopted Governmental Accounting Standard Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus* and Statement No. 38, *Certain Financial Statement Note Disclosures*, effective July 1, 2001.

The Fund has not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 28, 2003 on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

February 21, 2003  
Honolulu, Hawaii

**STATE OF HAWAII  
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES  
STATE PARKING REVOLVING FUND**

**STATEMENTS OF NET ASSETS**

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June 30, 2002 and 2001

**ASSETS**

	<u>2002</u>	<u>2001 (As Restated)</u>
<b>CURRENT ASSETS</b>		
Cash in State Treasury (Note 1)	\$ 5,634,558	\$ 4,751,320
Accounts receivable, net	137,241	154,785
Prepaid special assessment	7,972	-
Due from State Motor Pool Revolving Fund	14,298	9,713
Inventories (Note 1)	<u>4,662</u>	<u>7,057</u>
<b>TOTAL CURRENT ASSETS</b>	<u>5,798,731</u>	<u>4,922,875</u>
<b>NONCURRENT ASSETS</b>		
Capital assets, at cost, less accumulated depreciation (Notes 1 and 2)	<u>33,953,241</u>	<u>35,617,779</u>
<b>TOTAL ASSETS</b>	<u>\$ 39,751,972</u>	<u>\$ 40,540,654</u>

**LIABILITIES AND NET ASSETS**

<b>CURRENT LIABILITIES</b>		
Accounts payable (Note 3)	\$ 82,203	\$ 46,999
Accrued liabilities (Note 4)	102,680	107,153
Due to State Motor Pool Revolving Fund	8,042	-
General obligation bonds payable-current (Note 6)	<u>489,982</u>	<u>482,745</u>
<b>TOTAL CURRENT LIABILITIES</b>	<u>682,907</u>	<u>636,897</u>
<b>NONCURRENT LIABILITIES</b>		
Security card deposits	13,310	8,850
Accrued liabilities (Note 4)	132,838	113,648
Due to State of Hawaii	140,962	140,962
General obligation bonds payable, less current portion above (Note 6)	<u>1,736,429</u>	<u>2,226,411</u>
<b>TOTAL NONCURRENT LIABILITIES</b>	<u>2,023,539</u>	<u>2,489,871</u>
<b>TOTAL LIABILITIES</b>	<u>2,706,446</u>	<u>3,126,768</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	31,726,830	32,908,623
Unreserved	<u>5,318,696</u>	<u>4,505,263</u>
<b>TOTAL NET ASSETS</b>	<u>37,045,526</u>	<u>37,413,886</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 39,751,972</u>	<u>\$ 40,540,654</u>

The accompanying Notes to Financial Statements are an integral part of these statements.

**STATE OF HAWAII**  
**DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES**  
**STATE PARKING REVOLVING FUND**

STATEMENTS OF REVENUES, EXPENSES  
AND CHANGES IN NET ASSETS

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For the Years Ended June 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>
OPERATING REVENUES		
Parking assessments	\$ 2,441,392	\$ 2,525,260
Parking meter collections	736,769	709,927
Traffic fines	233,327	208,628
Other income	156	330
TOTAL OPERATING REVENUES	<u>3,411,644</u>	<u>3,444,145</u>
OPERATING EXPENSES		
Personnel services	877,274	784,036
Depreciation	1,671,521	1,729,318
Repairs and maintenance	843,790	548,408
Special assessment (Note 11)	55,479	-
Others	382,569	344,008
TOTAL OPERATING EXPENSES	<u>3,830,633</u>	<u>3,405,770</u>
INCOME (LOSS) FROM OPERATIONS	<u>(418,989)</u>	<u>38,375</u>
NONOPERATING REVENUES (EXPENSES)		
Interest income	202,196	242,506
Interest expense	(126,682)	(151,126)
Assessment on ceded land revenues	(24,885)	(19,150)
Loss on disposition of capital assets	-	(2,086)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>50,629</u>	<u>70,144</u>
INCOME (LOSS) BEFORE TRANSFERS	<u>(368,360)</u>	<u>108,519</u>
OPERATING TRANSFERS, NET - Equipment	<u>-</u>	<u>467</u>
CHANGE IN NET ASSETS	(368,360)	108,986
TOTAL NET ASSETS, beginning of year	<u>37,413,886</u>	<u>37,304,900</u>
TOTAL NET ASSETS, end of year	<u>\$ 37,045,526</u>	<u>\$37,413,886</u>

The accompanying Notes to Financial Statements are an integral part of these statements.



**STATE OF HAWAII**  
**DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES**  
**STATE PARKING REVOLVING FUND**

**STATEMENTS OF CASH FLOWS**

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For the Years Ended June 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from parking assessments	\$ 2,452,052	\$ 2,525,699
Receipts from parking meter collections	735,681	698,451
Receipts from traffic fines	233,327	208,628
Other receipts	156	330
Payments for personnel services	(852,106)	(766,240)
Payments for repairs and maintenance	(843,790)	(548,408)
Payments for special assessment	(47,437)	-
Other payments	(345,876)	(357,312)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,332,007</u>	<u>1,761,148</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest from time certificates of deposit	<u>202,196</u>	<u>242,506</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>202,196</u>	<u>242,506</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Payments for construction in progress, net of completed repairs	9,112	(19,006)
Ceded land payment	(24,104)	(18,920)
Principal paid on general obligation bonds	(482,745)	(478,963)
Acquisition of capital assets	(16,096)	(104,058)
Interest paid on general obligation bonds	(137,132)	(160,819)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(650,965)</u>	<u>(781,766)</u>
NET INCREASE IN CASH	883,238	1,221,888
CASH, beginning of year	<u>4,751,320</u>	<u>3,529,432</u>
CASH, end of year	<u>\$ 5,634,558</u>	<u>\$ 4,751,320</u>

The accompanying Notes to Financial Statements are an integral part of these statements.

**STATE OF HAWAII  
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES  
STATE PARKING REVOLVING FUND**

**STATEMENTS OF CASH FLOWS**

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For the Years Ended June 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>
RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Income (loss) from operations	\$ (418,989)	\$ 38,375
Adjustments to reconcile income (loss) from operations to net cash provided by operating activities:		
Depreciation	1,671,521	1,729,318
(Increase) decrease in assets:		
Accounts receivable	17,544	(11,037)
Prepaid special assessment	(7,972)	-
Due from State Motor Pool Revolving Fund	(4,585)	-
Inventories	2,395	-
Increase (decrease) in liabilities:		
Accounts payable	34,423	(11,474)
Accrued wages payable	2,890	2,101
Accrued vacation payable	22,278	15,695
Security card deposits	4,460	(1,830)
Due to State Motor Pool Revolving Fund	<u>8,042</u>	<u>-</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,332,007</u>	<u>\$ 1,761,148</u>

The accompanying Notes to Financial Statements are an integral part of these statements.

**STATE OF HAWAII  
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES  
STATE PARKING REVOLVING FUND**

**NOTES TO FINANCIAL STATEMENTS**

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For the Years Ended June 30, 2002 and 2001

(1) Summary of Significant Accounting Policies

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental units.

**Background** - The State Parking Revolving Fund (Fund) was established by an appropriation of \$50,000 from the State's General Fund pursuant to Act 161, Session Laws of Hawaii 1963 (Section 107-11 of the Hawaii Revised Statutes). The Fund is responsible for the assessment and collection of reasonable parking fees, installation of parking meters, and the restriction and control of parking on all state lands within the State Comptroller's jurisdiction. All fees, charges and other revenue collected are deposited into this Fund. The funds are to be expended, as necessary, to defray the cost of paving parking areas as well as the purchase and installation of parking meters on state lands within the State Comptroller's jurisdiction.

**Basis of Accounting** - The Fund is an enterprise fund (proprietary fund type) as defined by the Governmental Accounting Standards Board (GASB), which uses the flow of economic resources measurement focus and accrual basis of accounting as generally applied to commercial enterprises. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

**Use of Estimates** - The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents** - Cash and cash equivalents include cash held in the State Treasury. The Director of Finance is responsible for the safekeeping of all monies deposited into the State Treasury (cash pool). The

**STATE OF HAWAII**  
**DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES**  
**STATE PARKING REVOLVING FUND**

NOTES TO FINANCIAL STATEMENTS

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For the Years Ended June 30, 2002 and 2001

(1) Summary of Significant Accounting Policies (continued)

Hawaii Revised Statutes (HRS) authorizes the Director of Finance to invest in obligations of or guaranteed by the U. S. Government, obligations of the State of Hawaii (State), federally-insured savings and checking accounts, time certificates of deposit and repurchase agreements with federally-insured financial institutions. Deposits not covered by federal deposit insurance are fully collateralized by government securities held in the name of the State by third party custodians.

The Director of Finance pools and invests any monies of the Fund, which in the Director's judgment, are in excess of the amounts necessary for meeting the specific requirements of the Fund. Investment earnings are allocated to the Fund based on its equity interest in the pooled monies.

For purposes of the financial statements, the Fund considers all cash held in the State Treasury and investments with a maturity of three months or less when purchased to be cash equivalents.

**Inventories** - Inventories, principally supplies, are stated at the lower of cost or market with cost being determined by the first-in, first-out method (FIFO).

**Capital Assets** - Capital assets are defined by the Fund as parking structures and improvements, equipment, furniture and fixtures with estimated useful lives greater than one year and acquisition costs greater than:

Parking structures and improvements	\$100,000
Equipment, furniture and fixtures	5,000

Capital assets are stated at cost. Donated assets are recorded at their fair market value at the date of donation. Transfers are recorded at cost, net of the depreciation which would have been charged had the asset been directly

**STATE OF HAWAII**  
**DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES**  
**STATE PARKING REVOLVING FUND**

NOTES TO FINANCIAL STATEMENTS

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For the Years Ended June 30, 2002 and 2001

(1) Summary of Significant Accounting Policies (continued)

acquired by the Fund. The cost of normal maintenance and repairs that do not add to the value or materially extend useful lives are charged to operations as incurred. When capital assets are disposed, the cost and related accumulated depreciation are removed from the respective accounts with the resulting gain or loss reflected in operations.

**Depreciation** - Depreciation is computed under the straight-line method over estimated useful lives as follows:

	<u>Useful Lives</u>
Structures and improvements	30 years
Equipment, furniture and fixtures	5 - 12 years

**Vacation Pay** - The Fund's employees, with certain exceptions, earn vacation leave at the rate of one and three-quarters working days for each month of service. Vacation days may be accumulated to a maximum of ninety days. When termination of employment takes place, the employees are paid their vacation allowance in a lump sum. The Fund records all vacation pay at current salary rates, including additional amounts for certain salary-related payments associated with the payment of compensated absences, in accordance with GASB Statement No. 16, *Accounting for Compensated Absences*.

**Traffic Fines** - Traffic fines are reported as revenue when received.

**New Accounting Pronouncements** - The GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and Statement No. 38, *Certain Financial Statement Note Disclosures*. These pronouncements established new financial reporting requirements and a new financial reporting model for state and local governments. The Fund adopted these pronouncements, effective July 1, 2001.

**STATE OF HAWAII**  
**DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES**  
**STATE PARKING REVOLVING FUND**

NOTES TO FINANCIAL STATEMENTS

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For the Years Ended June 30, 2002 and 2001

(2) Capital Assets

Capital assets activity for the year ended June 30, 2002 was as follows:

	Balance July 1, 2001 (As restated)	Additions	Deductions 2002	Balance June 30,
Capital assets not being depreciated:				
Land	\$ 10,271,053	\$ -	\$ -	\$ 10,271,053
Construction in progress	<u>46,509</u>	<u>204,142</u>	<u>213,254</u>	<u>37,397</u>
Total capital assets not being depreciated	<u>10,317,562</u>	<u>204,142</u>	<u>213,254</u>	<u>10,308,450</u>
Capital assets being depreciated:				
Structures and improvements	54,162,305	-	-	54,162,305
Equipment, furniture and fixtures	<u>67,556</u>	<u>16,095</u>	<u>-</u>	<u>83,651</u>
Total capital assets being depreciated	<u>54,229,861</u>	<u>16,095</u>	<u>-</u>	<u>54,245,956</u>
Total capital assets	<u>64,547,423</u>	<u>220,237</u>	<u>213,254</u>	<u>64,554,406</u>
Less accumulated depreciation for:				
Structures and improvements	(28,899,536)	(1,661,719)	-	(30,561,255)
Equipment, furniture and fixtures	<u>(30,108)</u>	<u>(9,802)</u>	<u>-</u>	<u>(39,910)</u>
Total accumulated depreciation	<u>(28,929,644)</u>	<u>(1,671,521)</u>	<u>-</u>	<u>(30,601,165)</u>
Total capital assets, net	<u>\$ 35,617,779</u>	<u>\$(1,451,284)</u>	<u>\$ 213,254</u>	<u>\$ 33,953,241</u>

**STATE OF HAWAII**  
**DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES**  
**STATE PARKING REVOLVING FUND**

NOTES TO FINANCIAL STATEMENTS

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For the Years Ended June 30, 2002 and 2001

(3) Ceded Land Revenues

In 1898, the Republic of Hawaii transferred certain lands to the United States of America. Upon Hawaii's admission to the Union in 1959, the United States of America reconveyed title to those lands (collectively, the ceded lands) back to the State to be held as a public land trust for five purposes: (1) public education; (2) betterment of the conditions of native Hawaiians, as defined in the Hawaiian Homes Commission Act, 1920, as amended; (3) development of farm and home ownership; (4) making of public improvements; and (5) provision of land for public use. In 1978, the State Constitution was amended expressly to provide that the ceded lands were to be held as a public trust for native Hawaiians and the general public, and to establish the Office of Hawaiian Affairs (OHA) to administer and manage the proceeds and income derived from a pro rata portion of the ceded lands for native Hawaiians.

In 1979, the State Legislature adopted HRS Chapter 10, which, as amended in 1980, specified, among other things, that OHA receive and expend 20% of all funds derived by the State from the ceded lands for the betterment of native Hawaiians.

In 1987, in *Trustees of the Office of Hawaiian Affairs v. Yamasaki*, 69 Haw. 154 (1987), the Hawaii Supreme Court concluded that HRS Chapter 10 was insufficiently clear regarding the amount of monies OHA was entitled to receive from the public land trust.

In 1990, in response to *Yamasaki*, the State Legislature adopted Act 304, Session Laws of Hawaii 1990, which (1) defined "public land trust" and "revenue," (2) specified that 20% of the "revenue" derived from the "public land trust" was to be expended by OHA for the betterment of native Hawaiians, and (3) established a process for OHA and the Director of Finance to jointly determine the amount of monies which the State would pay OHA to retroactively settle all of OHA's claims for the period from June 16, 1980 through June 30, 1991. Since fiscal 1992, the State, through its departments and agencies, has been paying 20% of "revenue" to OHA on a quarterly basis.

**STATE OF HAWAII**  
**DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES**  
**STATE PARKING REVOLVING FUND**

NOTES TO FINANCIAL STATEMENTS

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For the Years Ended June 30, 2002 and 2001

(3) Ceded Land Revenues (continued)

In 1993, the State Legislature enacted Act 35, Session Laws of Hawaii 1993, appropriating \$136.5 million to pay the amount determined to be OHA's claims, with interest, for the period from June 16, 1980 through June 30, 1991.

In January 1994, OHA and its Board of Trustee (the Plaintiffs) filed suit against the State (*OHA, et al. v. State of Hawaii, et al.*, Civil No. 94-0205-01 (First Circuit)), claiming that the amount paid to OHA was inadequate and alleging that the State has failed to properly account for and fully pay the pro rata share of proceeds and income derived from the public land trust. Among other things, the Plaintiffs seek an accounting of all proceeds and income, funds and revenue derived from the public land trust since 1978, and restitution or damages amounting to 20% of the proceeds and income derived from the public land trust, as well as interest thereon. In its answer to OHA's complaint, the State denied all of the Plaintiffs' substantive allegations, and asserted its sovereign immunity from suit and other jurisdictional and claim-barring defenses.

The Plaintiffs, thereafter, filed four motions for partial summary judgment as to the State's liability to pay OHA 20% of monies it receives from (1) Airports' in-bond duty-free airport concession (including receipts from the concessionaire's off-airport sales operations); (2) the state-owned and operated Hilo Medical Center; (3) the State's rental public housing projects and affordable housing developments; and (4) interest income, including investment earnings (collectively, the Sources). In response, the State filed a motion to dismiss on the basis of sovereign immunity and opposed Plaintiffs' four motions on the merits and raised several affirmative defenses.

On October 24, 1996, the Circuit Court of the First Circuit of the State of Hawaii (First Circuit Court) filed an order denying the State's motion to dismiss and rejecting its affirmative defenses. Also on October 24, 1996, the First Circuit Court filed an order granting the Plaintiffs' four motions for partial summary judgment with respect to the State's liability to pay OHA 20% of the monies it receives from each of the Sources, and deferred establishing amounts owed from



**STATE OF HAWAII**  
**DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES**  
**STATE PARKING REVOLVING FUND**

NOTES TO FINANCIAL STATEMENTS

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For the Years Ended June 30, 2002 and 2001

(3) Ceded Land Revenues (continued)

those Sources for further proceedings or trial. The State's motion for leave to file an interlocutory appeal from both the order denying its motion to dismiss and the order granting the Plaintiffs' four motions for partial summary judgment was granted, and all proceedings in the suit have been stayed pending the Hawaii Supreme Court's disposition of the State's appeal.

On September 12, 2001, the Hawaii Supreme Court concluded that Act 304 was effectively repealed by its own terms, and that there were no juridically manageable standards by which to determine whether OHA was entitled to the revenue it sought from the Sources because the repeal of Act 304 revived the law which the Hawaii Supreme Court in *Yamasaki* had previously concluded was insufficiently clear to establish how much OHA was entitled to receive from the ceded lands. See *OHA v. State*, 96 Haw., 388 (2002). The Hawaii Supreme Court dismissed the case for lack of justiciability noting that it was up to the State Legislature to enact legislation to give effect to the right of native Hawaiians to benefit from the ceded lands under the State Constitution. The State Legislature took no action during the 2002 legislative session, and the State's payments of 20% of "revenue" were discontinued as of the first quarter in fiscal 2002.

The State currently is unable to predict with reasonable certainty the magnitude of its potential liability for such claims, if any. Resolution of all of OHA's claims could have an material adverse effect on the State's financial condition.

In a second lawsuit, OHA filed a complaint for declaratory and injunctive relief on November 4, 1994 (*OHA v. Housing Finance and Development Corporation, et al.*, Civil No. 94-4207-11 (First Circuit)) to enjoin the State from alienating any ceded lands or, alternatively, to preclude the extinguishing of any rights native Hawaiians may have in ceded lands which may be alienated.

**STATE OF HAWAII  
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES  
STATE PARKING REVOLVING FUND**

**NOTES TO FINANCIAL STATEMENTS**

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For the Years Ended June 30, 2002 and 2001

(3) Ceded Land Revenues (continued)

On April 2, 1996, the First Circuit Court denied the Defendants' motion for partial summary judgment which sought a ruling that the State has the authority to alienate ceded lands. On March 12, 1998, the Defendants filed another motion (Motion to Dismiss Certain Counts and for Partial Summary Judgment) which the First Circuit Court heard on July 9, 1998 and denied on August 27, 1998. On September 3, 1998, the Defendants filed a Motion for Leave to File Interlocutory Appeal from Order Denying Motion. This motion was heard on September 24, 1998, and was denied on October 7, 1998. Trial for this concluded on December 4, 2001. The First Circuit Court has taken the case under advisement.

In a third lawsuit, OHA filed suit against the Hawaii Housing Authority (the HHA), the executive director of the HHA, the board members of the HHA and the Director of Finance on July 27, 1995 (*OHA v. HHA, et al.*, Civil No. 95-2682-07 (First Circuit)) to secure additional compensation and an itemized accounting of the sums previously paid to OHA for five specifically identified parcels of ceded lands which were transferred to the HHA for its use to develop, construct and manage additional affordable public rental housing units under HRS Chapter 201G. On January 11, 2000, all proceedings in this suit were stayed pending the Hawaii Supreme Court's decision in the State's appeal in *OHA v. State of Hawaii*, Civil No. 94-0205-01 (First Circuit). The repeal and revival of the pre-*Yamasaki* law by the Hawaii Supreme Court's September 12, 2001 decision in *OHA v. State* should also require dismissal of the claims OHA makes in *OHA v. HHA*.

At the present time, the State is not able to estimate with any reasonable certainty the magnitude of the potential liability as it may be determined either by judicial rulings (either at trial or on appeal) or by legislation enacted as a result of the process established in Act 329. Accordingly, no estimate of loss has been made in State's or the accompanying financial statements. However, an ultimate decision against the State could have a material adverse effect on the financial position of the State.

**STATE OF HAWAII**  
**DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES**  
**STATE PARKING REVOLVING FUND**

NOTES TO FINANCIAL STATEMENTS

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For the Years Ended June 30, 2002 and 2001

(3) Ceded Land Revenues (continued)

The Fund has recorded ceded land payments of \$24,885 and \$19,150 for 2002 and 2001, respectively, to OHA representing OHA's entitlement to revenues derived from the Fund's use of ceded lands. All monies have been transferred to a trust fund pending resolution of OHA's claim against the State. Included in accounts payable is \$5,585 and \$4,804 for ceded land payments due as of June 30, 2002 and 2001, respectively.

(4) Accrued Liabilities

Accrued liabilities consist of the following:

	<u>2002</u>	<u>2001</u>
Accrued wages payable	\$ 34,861	\$ 31,971
Accrued vacation payable	138,996	116,719
Accrued interest payable	48,561	59,011
Accrued workers compensation	<u>13,100</u>	<u>13,100</u>
	235,518	220,801
Less current portion	<u>(102,680)</u>	<u>(107,153)</u>
Total accrued liabilities, net of current portion	<u>\$ 132,838</u>	<u>\$ 113,648</u>

(5) Workers' Compensation Reserve

The Fund is fully self-insured for workers' compensation and disability claims which are expensed when incurred. The Fund pays a portion of wages, medical

**STATE OF HAWAII  
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES  
STATE PARKING REVOLVING FUND**

NOTES TO FINANCIAL STATEMENTS

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For the Years Ended June 30, 2002 and 2001

(5) Workers' Compensation Reserve (continued)

bills, judgments as stipulated by the Department of Labor and Industrial Relations, and other costs for injured workers. During the years ended June 30, 2002 and 2001, there were no payments for workers' compensation claims and disability expenses. The Fund has recorded a reserve of \$13,100 for the expected cost of open reported claims based on historical cost information for closed and open claims as of June 30, 2002 and 2001.

(6) General Obligation Bonds Payable

The following are general obligation bonds and general obligation refunding bonds allocated to the Fund under acts of various Session Laws of Hawaii. Repayment of allocated bonds are made to the State's General Fund. Details of the allocated bonds payable at June 30, 2002 and 2001 are as follows:

	<u>2002</u>	<u>2001</u>
5.15% - 6.40% General obligation bonds, Series BW, of \$20,800 issued in March 1992 under Act 300, Session Laws of Hawaii 1995; annual principal payments of \$1,156 beginning March 1, 1995 through March 1, 1996, and \$1,155 beginning March 1, 1997 through March 1, 2012; semi-annual interest payments due September 1 and March 1; maturing on March 1, 2012.	\$ 11,554	\$ 12,710

**STATE OF HAWAII**  
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NOTES TO FINANCIAL STATEMENTS

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For the Years Ended June 30, 2002 and 2001

(6) General Obligation Bonds Payable (continued)

	<u>2002</u>	<u>2001</u>
4.30% - 5.75% General obligation refunding bonds, Series CB, of \$2,884,269 issued in January 1993 under Act 315, Session Laws of Hawaii 1992; annual principal payments of \$221,980 beginning January 1, 1996 through January 1, 1997, and \$221,846 beginning January 1, 1998 through January 1, 2008; semi-annual interest payments due July 1 and January 1; maturing in January 2008.	1,331,078	1,552,924
3.85% - 7.75% General obligation refunding bonds, Series CC, of \$218,603 issued in February 1993 under Act 315, Session Laws of Hawaii 1992; annual principal payments of \$15,615 beginning February 1, 1996 through February 1, 2005, and \$15,612 beginning February 1, 2006 through February 1, 2009; semi-annual interest payments due August 1 and February 1; maturing in February 2009.	109,295	124,910
3.85% - 5.00% General obligation refunding bonds, Series CD, of \$490,273 issued in February 1993 under Act 315, Session Laws of Hawaii 1992; annual principal payments of \$61,295 beginning February 1, 1996 through February 1, 1998, and \$61,278 beginning February 1,		

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NOTES TO FINANCIAL STATEMENTS

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For the Years Ended June 30, 2002 and 2001

(6) General Obligation Bonds Payable (continued)

	<u>2002</u>	<u>2001</u>
1999 through February 1, 2003; semi-annual interest payments due August 1 and February 1; maturing in February 2003.	61,278	122,555
3.25% - 5.50% General obligation refunding bonds, Series CF, of \$473,173 issued in July 1993 under Act 315, Session Laws of Hawaii 1992; annual principal payments of \$52,587 beginning July 1, 1994 through July 1, 1995, and \$52,571 beginning July 1, 1996 through July 1, 2002; semi-annual interest payments due January 1 and July 1; maturing in July 2002.	52,571	105,143
4.00% - 5.00% General obligation refunding bonds, Series CI, of \$550,212 issued in October 1993 under Act 344, Session Laws of Hawaii 1993; annual principal payments of \$36,685 beginning November 1, 1996 through November 1, 2003, and \$36,676 beginning November 1, 2004 through November 1, 2010; semi-annual interest payments due November 1 and May 1; maturing in November 2010.	330,103	366,788

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NOTES TO FINANCIAL STATEMENTS

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For the Years Ended June 30, 2002 and 2001

(6) General Obligation Bonds Payable (continued)

	<u>2002</u>	<u>2001</u>
4.00% - 5.00% General obligation refunding bonds, Series CQ, of \$659,806 issued in October 1997 under Act 357, Session Laws of Hawaii 1997; annual principal payments of \$81,623 beginning October 1, 1998 and increasing incrementally to \$108,621 through October 1, 2004; semi-annual interest payments due April 1 and October 1; maturing on October 1, 2004.	310,335	403,929
5.25% - 5.00% General obligation refunding bonds, Series CS, of \$20,197 issued in April 1998 under Act 357, Session Laws of Hawaii 1997; annual principal payments of \$2,465 beginning April 1, 2003 and increasing incrementally to \$3,335 through April 1, 2009; semi-annual interest payments due April 1 and October 1; maturing on April 1, 2009.	<u>20,197</u>	<u>20,197</u>
Total bonds payable	2,226,411	2,709,156
Less current installments	<u>(489,982)</u>	<u>(482,745)</u>
Bonds payable, net of current installments	<u>\$ 1,736,429</u>	<u>\$ 2,226,411</u>

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DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES  
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**NOTES TO FINANCIAL STATEMENTS**

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For the Years Ended June 30, 2002 and 2001

(6) General Obligation Bonds Payable (continued)

Approximate maturities on general obligation bonds payable for the next five years are as follows:

Years ending June 30:	
2003	\$ 489,982
2004	381,243
2005	386,645
2006	278,164
2007	278,323
Thereafter	<u>412,054</u>
	<u>\$ 2,226,411</u>

(7) Retirement Benefits

All eligible employees of the Fund are required by HRS Chapter 88 to become members of the Employees' Retirement System of the State of Hawaii (ERS), a cost-sharing multiple-employer public employee retirement plan. The ERS provides retirement benefits as well as death and disability benefits and is governed by a Board of Trustees. All contributions, benefits and eligibility requirements are established by HRS Chapter 88 and can be amended by legislative action.

The ERS issues a comprehensive annual financial report that is available to the public. The report may be obtained by writing to the ERS at 201 Merchant Street, Suite 1400, Honolulu, Hawaii 96813.

Prior to June 30, 1984, the plan consisted of only a contributory option. In 1984, legislation was enacted to add a new non-contributory option for members of the ERS who are also covered under Social Security. Persons who are employed in



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NOTES TO FINANCIAL STATEMENTS

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For the Years Ended June 30, 2002 and 2001

(7) Retirement Benefits (continued)

positions not covered by Social Security are precluded from the non-contributory option. The non-contributory option provides for reduced benefits and covers most eligible employees hired after June 30, 1984. Employees hired before that date were allowed to continue under the contributory option or to elect the new non-contributory option and receive a refund of employee contributions. All benefits vest after five and ten years of credited service under the contributory and non-contributory options, respectively.

Both options provide a monthly retirement allowance based on the employee's age, years of credited service, and average final compensation (AFC). The AFC is the average salary earned during the five highest paid years of service, including the vacation payment, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after that date is based on the three highest paid years of service, excluding the vacation payment.

Most covered employees of the contributory option are required to contribute 7.8% of their salary. The funding method used to calculate the total employer contribution requirement is the Entry Age Normal Actuarial Cost Method. Under this method, employer contributions to the ERS are comprised of normal cost plus level annual payments required to liquidate the unfunded actuarial liability over the remaining period of 19 years from July 1, 1997.

The State's contribution requirement as of June 30, 2002 and 2001, the most recent information available, was approximately \$113,984,000 and \$7,690,000, respectively. The State contributed 100% of its required contributions for 2002 and 2001.

Changes in salary growth assumptions and investment earnings pursuant to Act 100, Session Laws of Hawaii 1999, decreased the June 30, 2002 and 2001 required contributions. The Fund's covered payroll was approximately \$846,400 and \$759,400 in 2002 and 2001, respectively. There were no retirement plan contributions charged to the Fund's operations for the years ended June 30, 2002 and 2001.

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**(8) Post-Retirement Benefits**

In addition to providing pension benefits, the State, pursuant to HRS Chapter 87, provides certain health care and life insurance benefits to all qualified employees.

For employees hired before July 1, 1996, the State pays the entire monthly health care premium for employees retiring with ten or more years of credited service, and 50 percent of the monthly premium for employees retiring with fewer than ten years of credited service.

For employees hired after June 30, 1996, and who retire with fewer than ten years of service, the State makes no contributions. For those retiring with at least ten years but fewer than 15 years of service, the State pays 50 percent of the retired employees' monthly Medicare or non-Medicare premium. For employees hired after June 30, 1996, and who retire with at least 15 years but fewer than 25 years of service, the State pays 75 percent of the retired employees' monthly Medicare or non-Medicare premium; for those retiring with over 25 years of service, the State pays the entire health care premium.

Contributions are financed on a pay-as-you-go basis. The Fund's share of the expense for post-retirement benefits for the years ended June 30, 2002 and 2001 was \$37,924 and \$33,120, respectively.

**(9) Deferred Compensation Plan**

The State offers its employees a deferred compensation plan (Plan) created in accordance with Internal Revenue Code Section 457. The Plan, available to all state employees, permits employees to defer a portion of their compensation until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

**STATE OF HAWAII**  
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NOTES TO FINANCIAL STATEMENTS

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For the Years Ended June 30, 2002 and 2001

(9) Deferred Compensation Plan (continued)

All plan assets are held in a trust fund to protect them from claims of the State's general creditors. The State has no responsibility for loss due to the investment or failure of investment of funds and assets in the Plan, but does have the duty of due care that would be required of an ordinary prudent investor.

(10) Contingencies

Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit, but can be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a state employee who retires or leaves government service in good standing with sixty days or more of unused sick leave is entitled to additional service credit in the ERS. The Fund's accumulated sick leave pay is based on current salary rates, including additional amounts for certain salary-related payments associated with the payment of compensated absences, in accordance with GASB Statement No. 16, *Accounting for Compensated Absences*. As of June 30, 2002 and 2001, sick leave accumulations were approximately \$281,700 and \$364,300, respectively.

(11) Central Service and Departmental Administrative Expenses

HRS Section 36-27 requires that the Fund be assessed its pro rata share of central service expenses of government in relation to other special funds based on a percentage of the Fund's receipts. HRS Section 36-30 requires that the Fund be assessed its pro rata share of administrative expenses incurred by the Department of Accounting and General Services (DAGS), based on the ratio of the general administrative service expenses to DAGS's net departmental expenses. As of July 1, 2001, the assessments were reinstated, but there was no HRS Section 36-27 assessment in 2002. The total of the assessment under HRS Section 36-30 was \$55,479 in 2002.

**STATE OF HAWAII  
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES  
STATE PARKING CONTROL REVOLVING FUND**

NOTES TO FINANCIAL STATEMENTS

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For the Years Ended June 30, 2002 and 2001

(12) Prior Period Adjustment

In July 2001, the Fund adopted the State's capitalization policy for capital assets. As a result, capital asset balances as of July 1, 2001 were adjusted as follows:

Capital assets, as previously reported	\$ 35,725,570
Removal of capital assets, net of accumulated depreciation	<u>(107,791)</u>
<u>Capital assets, as adjusted</u>	<u>\$</u>
<u>35,617,779</u>	

The following details the adjustment to capital assets:

	<u>Balance at July 1, 2001</u>	
	<u>As Reported</u>	<u>As Adjusted</u>
Capital assets not being depreciated:		
<u>Land</u>	\$ 10,271,053	\$ 10,271,053
Construction in progress	<u>46,509</u>	<u>46,509</u>
Total capital assets not being depreciated	<u>10,317,562</u>	<u>10,317,562</u>
Capital assets being depreciated:		
Structures and improvements	54,162,305	54,162,305
Equipment, furniture and fixtures	<u>365,984</u>	<u>67,556</u>
Total capital assets being depreciated	<u>54,528,289</u>	<u>54,229,861</u>
Total capital assets	<u>64,845,851</u>	<u>64,547,423</u>
Less accumulated depreciation for:		
Structures and improvements	(28,899,536)	(28,899,536)
Equipment furniture and fixtures	<u>(220,745)</u>	<u>(30,108)</u>
Total accumulated depreciation	<u>(29,120,281)</u>	<u>(28,929,644)</u>
Total capital assets, net	<u>\$ 35,725,570</u>	<u>\$ 35,617,779</u>

**STATE OF HAWAII**  
**DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES**  
**STATE PARKING CONTROL REVOLVING FUND**

NOTES TO FINANCIAL STATEMENTS

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For the Years Ended June 30, 2002 and 2001

(13) Subsequent Event

Subsequent to June 30, 2002, the Fund transferred \$3,000,000 to the State's General Fund, pursuant to Act 178, Session Laws of Hawaii 2002.

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING**

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

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Comptroller  
State of Hawaii,  
Department of Accounting and General Services

We have audited the financial statements of the

**STATE PARKING REVOLVING FUND (Fund),**

as of and for the year ended June 30, 2002, and have issued our report thereon dated February 28, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, including applicable provisions of the Hawaii Public Procurement Code (Chapter 103D of the Hawaii Revised Statutes) and procurement rules, directives, and circulars, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

## Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Fund's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying report entitled *Communication of Internal Control Over Financial Reporting Related Matter and Prior Year Recommendation-Reportable Condition*.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level, the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

This report is intended solely for the information and use of the management of the Fund, the Department of Accounting and General Services and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

February 21, 2003  
Honolulu, Hawaii



**STATE OF HAWAII  
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES  
STATE PARKING REVOLVING FUND**

COMMUNICATION OF INTERNAL CONTROL OVER FINANCIAL  
REPORTING RELATED MATTER AND PRIOR  
YEAR RECOMMENDATION - REPORTABLE CONDITION

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PRIOR YEAR'S REPORTABLE CONDITION

The following reportable condition was included in the audit report for the year ended June 30, 2001.

RECONCILIATION OF ACCOUNTS RECEIVABLE SUBSIDIARY RECORDS

Condition - A computerized accounts receivable subsidiary system has been developed to enter billings and receipts for parking assessments. However, there appears to be no reconciliation or review of the account balances.

Recommendation - Periodic reviews of the aged accounts receivable trial balance should be made by management.

Status - The Fund's management is periodically reviewing the aged accounts receivable trial balances.